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June 13, 2005

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

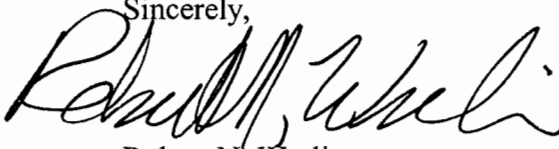
Re: D.T.E. 05-44 — Boston Edison Company/  
D.T.E. 05-45 — Cambridge Electric Light Company

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Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matters is an original and four copies of the response of NSTAR Electric to the comments filed by the Attorney General and The Energy Consortium.

Thank you for your attention to this matter.

Sincerely,  
  
Robert N. Werlin

Enclosures

cc: Shaela McNulty Collins, Hearing Officer  
Colleen McConnell, Assistant Attorney General  
John A. DeTore

**COMMONWEALTH OF MASSACHUSETTS**

**DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Boston Edison Company/	)	D.T.E. 05-44
Cambridge Electric Light Company	)	D.T.E. 05-45
_____	)	

**RESPONSE OF NSTAR ELECTRIC TO COMMENTS FILED BY  
THE ENERGY CONSORTIUM AND THE ATTORNEY GENERAL**

**I. INTRODUCTION**

Boston Edison Company (“Boston Edison”) and Cambridge Electric Light Company (“Cambridge”) (together “NSTAR Electric” or the “Companies”) hereby respond to the comments filed on June 9, 2005 by: (1) The Energy Consortium (“TEC”); and (2) the Attorney General (the “Attorney General”) in the above-referenced matters. The comments filed by TEC and the Attorney General oppose the Company’s May 24, 2005 request for approval of rate tariffs for effect July 1, 2005, which, in large part, are intended to adjust the Companies’ respective transition charges to eliminate or reduce the impact of a projected year-end 2005 \$22.2 million under-collection of Cambridge’s transition costs and a projected \$69.6 million over-collection of Boston Edison’s transition costs. These “mid-year corrections” are designed to recover transition costs in a timely manner, while avoiding a large over- and underrecovery, while taking into account rate-continuity principles. For the following reasons, the arguments of TEC and the Attorney General are factually and legally erroneous, and the Department of Telecommunications and Energy (the “Department”) should approve the rate tariffs.

## **II. SUMMARY OF THE TARIFFS**

As described in the filings, the tariff changes proposed by the Companies are designed to accomplish three changes:

- to adjust the transition charge to reduce or eliminate the over- or underrecovery of transition costs;
- to reduce distribution rates in accordance with the requirements of the Department's order in D.T.E. 03-88B to transfer recovery of certain wholesale and direct retail costs from distribution rates to Default Service rates;<sup>1</sup> and
- to reinstate approved distribution rates to eliminate lost distribution revenues necessitated by the rate cap that expired on February 28, 2005.

For Boston Edison, a reduction in the transition charge is proposed, which would reduce the charge from the existing 2.335 cents per kilowatt-hour ("kWh") to 1.634 cents per kWh in order to eliminate the \$69.6 million over-recovery of transition costs projected for the end of 2005. Also, the Boston Edison tariffs would reinstate the level of certain distribution rates that were reduced to conform with the Department's requirements relating to the Standard Offer Service rate cap. These distribution rates, which would be in effect for six months this year, would end the \$149,000 annual revenue shortfall.

For Cambridge, an increase in the transition charge is proposed, which would increase the charge from the existing 0.288 cents per kWh to 1.332 cents per kWh in order to eliminate over an 18-month period the \$22.2 million under-recovery of transition costs projected for the end of 2005. Also, the tariffs would reinstate the level of certain distribution rates that were reduced to conform with the Department's requirements

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<sup>1</sup> Neither the Attorney General nor TEC objects to the manner in which the Companies have complied with the Department's requirement with respect to the distribution rate adjustment approved in D.T.E. 03-88A and D.T.E. 03-88C.

relating to the Standard Offer Service rate cap. These distribution rates, which would be in effect for six months this year, would end the \$12,000 annual revenue shortfall.

As described below in responding to the arguments of TEC and the Attorney General, there is no legal impediment to making these adjustments, and the proposals are consistent with Department ratemaking principles, which attempt to minimize deferrals while balancing rate-continuity considerations.

### **III. RESPONSE TO TEC COMMENTS**

TEC objects to the increase in the Cambridge transition charge, largely on rate-continuity grounds. It first describes in misleading terms the impact of the increase and then argues that the change should be rejected to avoid “rate shock” (TEC Comments at 1-4). TEC’s characterization of a 362.5 percent increase is inflammatory and misleading. That percentage isolates one rate element that was artificially reduced at the beginning of the year in order to comply with the statutory requirements to maintain a 15 percent, inflation-adjusted rate reduction. See Exhibit CAM/COM-HCL at 5-6, filed in D.T.E. 04-114. Of course, no customer pays only the transition charge, and when the Department looks at typical bill impacts, it considers the entire electric bill for customers. The bill impacts of the proposed changes for Cambridge are generally under 10 percent (Exh. CAM-HCL-3).<sup>2</sup> TEC’s rhetoric regarding a 362.5 percent increase is irrelevant with regard to rate continuity.<sup>3</sup>

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<sup>2</sup> Similarly, TEC’s focus on the variable component of the transition charge (TEC Comments at 2-3) is unavailing because rate continuity is viewed in the context of the impact on a customer’s bill, not the variability of an isolated component cost element.

<sup>3</sup> TEC also states that there would be “an increase of approximately 20% or more in total NSTAR charges” (TEC Comments at 2). This could also be misleading if these customers purchase generation service from a competitive supplier. If so, the increase in total electric bills could be less than one-half of that percentage.

TEC does not argue that the transition costs should not be recovered, but that the timing of the recovery should be altered. It recommends that the recovery of any deferral be spread out over a number of years, either through the securitization of the deferral or by requiring Cambridge to reduce substantially the proposed increase in transition charges and to spread the collection of the deferral over a term longer than the 18 months proposed by Cambridge (TEC Comments at 3). Neither of these proposals can or should be accepted.

With regard to TEC's recommendation to securitize the deferred transition costs as a means of mitigating the impact of a rate increase, the level of costs forecasted to be under-recovered, i.e., \$22.2 million, is too small an amount to be economically recovered through rate reduction bonds. For example, the recently approved securitization of transition costs for Boston Edison and Commonwealth Electric Company included the issuance of rate reduction bonds in several classes, with each class having a different maturity and different principal amount (see Boston Edison Company/Commonwealth Electric Company, D.T.E. 04-70 (December 1, 2004 Tr. 1, at 27-28)). The principal amount for each class was determined based on investor demand, with a goal of issuing debt with the lowest weighted-average coupon (Tr. 1 at 28). The lowest principal amount calculated was approximately \$93 million (id.). The expert witness in that proceeding testified that issuances of principal amounts of less than \$93 million were "unlikely" to attract investors (id. at 29). Accordingly, Cambridge could not attract investors for rate reduction bonds totaling approximately \$22 million (even ignoring the prohibitive transactions costs for a securitization of that size), as would be required to securitize

Cambridge's projected transition cost under-recovery.<sup>4</sup>

TEC's alternative recommendation, i.e., to spread out the rate increase over a longer period of time, should also be rejected. With the expiration of Standard Offer Service, transition costs should be recovered as incurred. Electric distribution companies should base the level of transition charges on the forecast of transition costs. If, during the year, it becomes apparent that there is likely to be a significant over- or undercollection, companies should adjust rates to avoid a large change the next year.<sup>5</sup> The Department has (correctly) recognized the negative long-term impacts on customers of significant deferrals and has approved substantial rate increases to avoid those impacts. See, e.g., Standard Offer Service Fuel Adjustments, D.T.E. 00-66, 00-67, 00-70 (Letter Order dated December 4, 2000); CGAC Adjustment, D.T.E. 01-09, et seq., Executive Summary (2001). Implementing the proposed increase in the transition charge on July 1, 2005 meets the objective of reducing the deferrals as quickly as possible, consistent with the Department's goal of rate continuity. The proposal to increase its transition charge to 1.332 cents per kWh as of July 1, 2005, and roughly maintain that level through 2006, is consistent with the Department's goal of rate continuity because it will allow Cambridge to avoid increasing the charge even higher, to 1.946 cents per kWh as of January 1, 2006,

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<sup>4</sup> TEC's suggestion that Cambridge should have included its deferral in the recently approved securitization for Boston Edison and Commonwealth Electric Company is similarly misplaced. At the time that decisions were being made to file for securitization, the most recent projections of Cambridge's transition charges balance at the end of 2005 did not indicate a deferral. See Exhibit CAM-JFL-1(Supp) filed in D.T.E. 03-118 in March 2004. In that exhibit, it was projected that Cambridge would have a transition charge of 0.881 cents per kWh in 2005, but, as described above, the actual charge was restricted to 0.288 cents per kWh.

<sup>5</sup> In the case of Cambridge in 2005, it was the statutory rate cap that caused the deferral, not a significant change in the forecast of the transition charge components.

in order to recover its deferrals (cf. Exh. CAM-CLV-1 (Update 2005) to Exh. CAM-CLV-1 (Revised); see also Response to Information Request DTE-1-1[D.T.E. 05-45]).<sup>6</sup>

Accordingly, the decision to raise the transition charge to the level proposed was to reduce the sizeable increase in the transition charge forecast for year-end 2005 and to reduce the sizeable decrease in the charge in 2007 (Response to Information Request DTE-1-1[D.T.E. 05-45]). Therefore, the Cambridge tariff achieves the objective of eliminating its deferral by the end of 2006, while achieving the Department's goal of rate continuity.<sup>7</sup>

#### **IV. RESPONSE TO ATTORNEY GENERAL'S COMMENTS**

The Attorney General's comments focus on the timing of the Companies' filings, rather than the substance of the tariffs. The Attorney General recommends that the Department reject the proposed tariffs alleging that: (1) because the Companies' Department-approved Restructuring Plans provide for annual reconciliation of transition charges, Department precedent "requires" the proposed adjustments in the tariffs to be moderated; (2) there is insufficient time to fully investigate the proposals; and (3) customers will not be harmed, or benefited, any more now than they would be if the Department required the Companies to reconcile their projected transition costs at the

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<sup>6</sup> Increasing the transition charge as of July 1, 2005 will also avoid the further the adverse rate impact of combining a 1.946 cents/kWh transition charge with a possible additional default service rate increase in January 2006, which may occur as a result of the most recent competitive default service bids received by the Company (see Response to Information Request DTE-1-1[D.T.E. 05-45]; NSTAR Electric Default Service Tariff Filing (May 24, 2005), Appendix B **CONFIDENTIAL**).

<sup>7</sup> Eliminating the deferral associated with Cambridge's transition charge by the end of 2006 will also save Cambridge's customers carrying charges that would occur if the deferral were to continue into 2007 under TEC's proposal to spread out recovery over a period of longer than 18 months.

time of the Companies' 2005 annual reconciliation filings (Attorney General Comments at 3).

The Attorney General bases his first contention on the Department's recitation of provisions in the Cambridge's Restructuring Plan in its order approving the plan and Boston Edison's Restructuring Settlement at Section V.E. Cambridge Electric Light Company/Commonwealth Electric Company, D.P.U. 97-111, at 74. However, although those Restructuring Plans provide that balances in the transition charge reconciliation accounts at the end of a year shall be used to adjust the transition charges for the following year, they do not restrict the Companies from seeking additional adjustments over the course of a year. The Attorney General cites no Department precedent or provision to support his contention that only year-end transition charge adjustments are allowed. In fact, in similar circumstances where it appears that a company will over- or undercollect a reconciling cost, companies have been required or permitted, by statute and Department precedent, to adjust the level of its rates. See, e.g., CGAC, D.T.E. 01-49-A at 8 (2001); G.L. c. 164, § 94G(b). Accordingly, contrary to the Attorney General's contention, there is no legal restriction that would require the Companies to maintain the existing level of their transition charges when a large over- or undercollection is forecast.

The Attorney General's comments regarding the limited time available to investigate the Companies' proposals is also unpersuasive. The Companies filed tariffs on May 24, 2005, with comprehensive exhibits supporting the changes. The Department has issued, and the Companies have responded to numerous information requests. These filings contain the same type of information routinely filed by the Companies in support of their annual, year-end rate adjustments and there is more time between the filing date



and the effective date for the tariffs.<sup>8</sup> Accordingly, the Attorney General's argument that the Department prolong its analysis of the Company's filing past July 1, 2005 should be rejected.

The Attorney General's last contention, that customers will neither be harmed nor benefited if the Department required the Company to reconcile its projected transition costs at the end of the year, fails to acknowledge the facts of these cases. If the Attorney General had his way, the customers of Boston Edison would lose the benefit of an immediate rate reduction, and the customers of Cambridge would face the prospect of even larger rate increases on January 1, 2006. The Companies have provided sufficient documentation supporting their request for a transition charge adjustments effective July 1, 2005.<sup>9</sup>

## **V. CONCLUSION**

The Department should reject the arguments of TEC and the Attorney General regarding the Companies' proposed rate tariffs for effect July 1, 2005 and approve the tariffs in order to allow the recovery of transition costs consistent with updated forecasts. The rate adjustments are intended to avoid significant over- and undercollections consistent with Department precedent and rate-continuity concerns.

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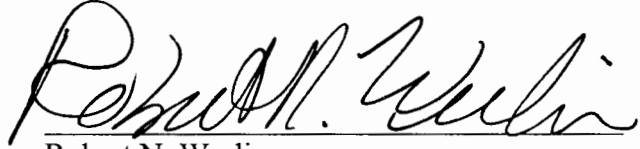
<sup>8</sup> The Companies annual rate filing for effect on January 1, 2005 were submitted to the Department on December 7, 2004 for effect January 1, 2005. See Initial Filings in D.T.E. 04-113 and D.T.E. 04-114.

<sup>9</sup> Of course, as is the case in its annual transition charge filings, the underlying costs are subject to review and reconciliation at a later date.

Respectfully submitted,

**NSTAR ELECTRIC**

By its attorney,

A handwritten signature in black ink, appearing to read "Robert N. Werlin". The signature is fluid and cursive, with a horizontal line drawn underneath it.

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Dated: June 13, 2005